

## Message Text

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PAGE 01 CAIRO 11063 01 OF 02 021114Z  
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W  
-----039591 021117Z /12

R 021004Z JUL 77  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 6857  
INFO AMCONSUL ALEXANDRIA  
AMEMBASSY ABU DHABI  
AMEMBASSY DOHA  
AMEMBASSY JIDDA  
AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 11063

EXDIS

EO 11652: GDS  
TAGS: EINV, ETRD, EG  
SUBJ: FORD INVESTMENT PROJECT

REF CAIRO 10576,

1. SUMMARY: FORD REP OUROUSSOFF, ON INSTRUCTIONS FROM COMPANY, CALLED TO SEEK AMB'S OPINION ON WHETHER LATEST HOLD-UP IN GETTING GOE DECISION ON FORD PROJECT (REFTEL) WAS DELIBERATE DELAYING TACTIC, DESIGNED ULTIMATELY TO SOP EXECUTION OF PROJECT. AMB REPLIED HE THOUGHT DELAY MERELY A MATTER OF "SUMMER DOLDRUMS" COMBINED WITH USUAL EGYPTIAN BUREAUCRATIC PROBLEMS ASSOCIATED WITH ORGANIZING A NEW ADMINISTRATIVE ENTITY--THE HIGHER INVESTMENT COUNCIL. AMB DID NOT REGARD DELAY AS SIGNIFICANT IN TERMS OF GOE INTENTIONS AND POINTED OUT THAT IN THE NATURE OF THINGS, STILL FURTHER DELAYS WERE LIKELY, ESPECIALLY WITH ONSET OF RAMADAN IN MID AUG. MORE SERIOUS QUESTION WAS WHETHER GOE AND COMPANY WOULD BE ABLE RESOLVE THEIR BASIC DIFFERENCES, ESPECIALLY WITH REGARD TO FOREIGN EXCHANGE NEEDS AND PRICING OF VEHICLES SOLD IN EGYPT.  
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OUROUSSOFF SAID HE FELT THAT NEITHER PROLBM WAS A SERIOUS AS IT APPEARED AND THAT BOTH COULD BE SATISFACTORILY SETTLED.  
END SUMMARY

2. FORD MOTOR CO REP OUROUSSOFF, ON INSTRUCTIONS FROM COMPANY, CALLED ON AMB TO SEEK HIS VIEWS ON WEHETHER MOST RECENT POSTPONEMENT OF MEETING OF HIGHER INVESTMENT COUNCIL (REF

A) AND CONSEQUENT DEFERRAL OF DECISION ON FORD PROPOSAL WAS DELIBERATE DELAYING TACTIC, PERHAPS DESIGNED ULTIMATELY TO PREVENT EXECUTION OF PROJECT. IN VIEW OF "WHAT IS HAPPENING NOW", COMPANY WONDERED IF PROJECT WERE WORTH PURSUING. (OUROUSSOFF NOTED IN LATER PART OF CONVERSATION THAT ONE OF REASONS FOR COMPANY'S CONCERN ABOUT DELAY WAS FACT THAT LOAN OF ONE MILLION POUNDS WHICH FORD HAD OBTAINED FROM EGYPTIAN BANK BY MORTGAGING ALEXANDRIA PLANT, MATURED IN OCT.) COMPANY HAD JUST SENT INSTRUCTIONS TO OUROUSSOFF TO RETURN TO DETROIT WEEK OF JULY 4 FOR FULL REVIEW OF INVESTMENT PROPOSAL FOR EGYPT.

3. AMB REPLIED THAT HE THOUGHT THE CURRENT DELAYS SHOULD NOT BE TAKEN TOO SERIOUSLY, ALTHOUGH THIS WAS A VERY DIFFERENT QUESTION FROM THAT OF WHETHER PROJECT WAS WORTH PURSUING. PACE OF ACTIVITY IN GOE NORMALLY SLOWED IN SUMMER AND SETTING UP OF HIGHER INVESTMENT COUNCIL WAS A MAJOR BUREAUCRATIC STEP WHICH COULD BE EXPECTED TO TAKE SOME TIME. FORD SHOULD RECK ON WITH POSSIBILITY THAT FURTHER POSTPONEMENTS WOULD ENSUE, ESPECIALLY WITH ONSET OF RAMADAN IN MID AUG. ALL SIGNALS AMB HAD RECEIVED, HOWEVER, INCLUDING POSITIVE COMMENTS BY PRES SADAT AT TIME OF AID ADMINISTRATOR GILLIGAN'S VISIT, INDICATE GOE WANTS TO PROCEED WITH FORD PROJECT.

4. MORE FUNDAMENTAL QUESTION, AMB SAID, IS WHETHER COMPANY AND GOE CAN RESOLVE THEIR DIFFERENCES SO AS TO PERMIT PROJECT

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TO BE CARRIED OUT. EVEN IF HIGHER COUNCIL MET AND GIVEN ITS APPROVAL TO PROJECT, THERE WOULD STILL BE PROBLEMS TO BE WORKED OUT. PRINCIPAL POINTS AT ISSUE APPEARED TO BE QUESTION OF FOREIGN EXCHANGE WHICH COMPANY WANTS GOE TO MAKE AVAILABLE IN EARLY YEARS OF PROJECT, AND QUESTION OF PRICING OF TRUCKS TO BE SOLD IN EGYPT.

5. OUROUSSOFF ACKNOWLEDGED THESE WERE SIGNIFICANT ISSUES, BUT AID HE DID NOT REGARD EITHER OF THEM AS UNRESOLVABLE. WITH RESPECT TO FOREIGN EXCHANGE, THERE WERE A NUMBER OF FACTORS WHICH SHOULD MAKE IT POSSIBLE FOR PARTIES TO COME TO TERMS. FIRST, COMPANY HAD PROBABLY OVERSTATED SOMEWHAT THE NEED FOR FX IN EARLY YEARS (MORE THAN 100 MILLION) IN ORDER ALLOW ITSELF MARGIN OF SAFETY. MOREOVER, OUROUSSOFF POINTED OUT, EXECUTION OF PROJECT WOULD ADD CONSIDERABLY TO GOE FX REVENUES, NOT ONLY INDIRECTLY--THROUGH IMPORT SUBSTITUTION--BUT DIRECTLY, AS WELL.

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INFO OCT-01 ISO-00 SSO-00 /026 W  
-----039699 021127Z /12

R 021004Z JUL 77  
FM AMEMBASSY CAIRO  
TO SECSTATE WASHDC 6858  
INFO AMCONSUL ALEXANDRIA  
AMEMBASSY ABU DHABI  
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AMEMBASSY JIDDA  
AMEMBASSY KUWAIT

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EXDIS

6. OUROUSSOFF NOTED, FOR EXAMPLE, THAT THE MARKETING COMPANY FORD HAS AGREED TO FORM IN EGYPT FOR SELLING COMPANY'S PRODUCTS IS ARAB WORLD WOULD PROBABLY NOT BE UNDER LAW 43 AND ITS PROFITS WOULD THEREFORE BE FULLY TAXABLE BY GOE. FORD HAS ALSO AGREED, AS DISCUSSED IN MARCH 24 LETTER FROM WILLIAMS TO ABDEL RAZZAK ABDEL MEGUID, TO BUY \$10 MILLION IN SUPPLIES AND PARTS (MAINLY CASTINGS) FROM GOE FACTORIES FOR USE IN ITS WORLDWIDE OPERATIONS. ADDITIONAL POSSIBILITIES FOR ACQUIRING FX WERE PURCHASES FOR POUNDS IN THE "FREE" MARKET, AND SALES IN EGYPT FOR HARD CURRENCY. WITH RESPECT TO LATTER POINT, OUROUSSOFF NOTED THAT EL NASR AUTOMOTIVE COMPANY SOLD MILLIONS OF DOLLARS WORTH OF ITS PRODUCTS IN HARD CURRENCY.

7. WITH RESPECT TO PRICING IN EGYPT OF TRUCKS PRODUCED BY JOINT VENTURE, OUROUSSOFF, WHILE ACKNOWLEDGING THAT VIABILITY OF ENTIRE PROJECT DEPENDED UPON SELLING TRUCKS LOCALLY AT PRICE WHICH PERMITTED THE ENTERPRISE TO OFFSET LOSSES ON EXPORT SALES, CLAIMED THAT PRICE CHARGED WOULD NOT BE SUBSTANTIALLY HIGHER THAN THAT CURRENTLY BEING PAID FOR COM-  
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PARABLY IMPORTED TRUCKS SUCH AS BEDFORD. EGYPTIAN CONSUMERS WOULD, OF COURSE, BE AFFECTED BY FUTURE HIGHER PRICES OF IMPORTED TRUCKS, SINCE FORD WAS SEEKING FOR JOINT VENTURE AN

INCREASE FROM 41 PERCENT TO 55 PERCENT IN EFFECTIVE DUTY ON BUILD-UP TRUCKS. TARIFF PROTECTION FOR DOMESTIC INDUSTRIES, HOWEVER, WAS CERTAINLY NOTHING NEW IN EGYPT. IN SUM, OUROUSSOFF FELT THERE WAS ENOUGH LATITUDE ON MAJOR ISSUES SEPARATING PARTIES TO MAKE AGREEMENT POSSIBLE.

8. IN DISCUSSING MININD SHAHIN WHO HAD BEEN NEGATIVE VOICE IN GOE COUNCILS WITH RESPECT TO FORD PROJECT, OUROUSSOFF SAID DEPUTY INVESTMENT AUTHORITY CHAIRMAN EL NAZER HAD BEEN SHARPLY CRITICAL OF THE MINISTER. EL NAZER EVEN SUGGESTED THAT SHAHIN MIGHT BE DROPPED FROM CABINET AFTER SIX MONTHS OR SO, NOTWITHSTANDING RECENT FAVORABLE REFERENCES TO THE MINISTER IN PUBLIC STATEMENTS BY SADAT. SUCH REFERENCES, EL NAZER REPORTEDLY SAID, COULD MORE ACCURATELY BE SEEN AS WARNING FROM PRESIDENT.

9. TURNING TO BOYCOTT ASPECTS OF FORD CASE, OUROUSSOFF SAID HE WONDERED WHY FONMIN FAHMY HAD WARNED FORD AGAINST ANY DIRECT CONTACT WITH BOYCOTT AUTHORITIES. THERE SEEMED TO BE AT LEAST A POSSIBILITY OF OBTAINING A FAVORABLE RESULT BY APPROACHING BOYCOTT OFFICIALS DIRECTLY. OUROUSSOFF SAID THAT SOME WHO WERE AWARE OF FAHMY'S ATTITUDE ATTRIBUTED IT TO FONMIN'S DESIRE TO CALIM SOLE CREDIT FOR REMOVAL OF BOYCOTT SANCTION AGAINST MAJOR COMPANIES, POSSIBLY WITH PECUNIARY INTEREST IN VIEW. COCA-COLA REP SAM AYOUB, OUROUSSOFF HAD HEARD, TOLD PRIMIN SALEM ABOUT FAHMY'S POSITION ON DEALING WITH BOYCOTT OFFICIALS AND WAS GIVEN PRECISELY OPPOSITE ADVICE BY SALEM.

10. AMB NOTED THAT FONMIN'S PERSONALITY WAS SUCH THAT IDEA OF BEING CREDITED WITH REMOVING COMPANIES FROM BOYCOTT CONFIDENTIAL

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LIST WOULD PROBABLY BE APPEALING EVEN WITHOUT ANY PECUNIARY MOTIVE. AMB THOUGHT IS MORE LIKELY, HOWEVER, THAT FONMIN'S PRINCIPAL REASON FOR WARNING COMPANIES AWAY FROM BOYCOTT OFFICE WAS POSSIBILITY OF LESS MODERATE BOYCOTT FORCES BEING ROUSED TO OPPOSITION. FAHMY'S OVERALL IDEA WAS THAT BEST APPROACH WAS TO PERMIT COMPANIES TO OPERATE IN EGYPT, WITH EXPECTATION THAT OTHER ARAB COUNTRIES WOULD SOONER OR LATER FALL INTO LINE.

11. COMMENT: WITH RECALL OF OUROUSSOFF TO DETROIT FOR FURTHER DISCUSSIONS, IT APPEARS THAT FORD MAY BE NEAR TO MAKING MAJOR DECISION ON WHETHER TO PROCEED WITH PROJECT. WHILE TERMS OF FORD PROPOSAL MAY NOT OFFER GOE AS MANY ADVANTAGES AS IT SEEKS OR THINKS IT CAN GET, NEGOTIATIONS BETWEEN THE PARTIES HAVE HAD CONSIDERABLE PUBLICITY AND FAILURE TO REACH AGREEMENT WOULD NOT BE HELPFUL TO GOE EFFORTS TO ATTRACT FOREIGN INVESTMENT. EILTS

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## Message Attributes

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